

# Audit Report

## AuSable Valley Community Mental Health Authority

October 1, 2001 – September 30, 2004



Office of Audit  
Grayling Regional Office

June 2007



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF COMMUNITY HEALTH  
OFFICE OF AUDIT  
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JANET OLSZEWSKI  
DIRECTOR

June 19, 2007

William Williams, Chairperson  
AuSable Valley Community  
Mental Health Authority Board of Directors  
1199 West Harris Ave.

P.O. Box 310

Tawas City, MI 48764

and

Floyd R. Smith, PhD, Executive Director

AuSable Valley Community

Mental Health Authority

1199 West Harris Ave.

P.O. Box 310

Tawas City, MI 48764

and

Ms. Janet Olszewski, Director

Department of Community Health

Lewis Cass Building

Lansing, MI 48913

**CERTIFIED MAIL**

Dear Dr. Williams, Dr. Smith, and Ms. Olszewski:

Enclosed is our report on the audit of the AuSable Valley Community Mental Health Authority, an agency under contract with the Michigan Department of Community Health for the period October 1, 2001 through September 30, 2004.

Sincerely,

Ray Bankert, Regional Manager  
Grayling Regional Office  
Office of Audit

Enclosure

c: Ed Dore  
Nick Lyon  
Patrick Barrie  
Irene Kaziyczko  
Mark Kielhorn  
John Duvendeck  
Gary VanNorman  
Teresa Simon  
Richard Stafford

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## **DESCRIPTION OF AGENCY**

AuSable Valley Community Mental Health Authority (AVCMHA) operates as a joint venture between Iosco, Ogemaw, and Oscoda counties. AVCMHA operates under the provisions of Act 258 of 1974, the Mental Health Code, Sections 330.1001 – 330.2106. Effective September 27, 1996 AVCMHA became a Community Mental Health Authority.

During the fiscal years audited, AVCMHA provided outpatient, residential, partial day, case management, prevention, emergency, Children's Model Waiver, Adult Benefit Waiver, and Omnibus Budget Reconciliation Act (OBRA) services to residents within Iosco, Oscoda, and Ogemaw Counties.

AVCMHA's administrative offices are located in Tawas City. AVCMHA's board consists of 12 members appointed for three-year terms by the county boards of commissioners. The board members reside within the three counties served by AVCMHA.

As of October 1, 2002, AVCMHA affiliated with North Country CMHSP and Northeast CMHSP to form a titled affiliation for the Medicaid contract as the Northern Affiliation Prepaid Inpatient Health Plan (PIHP). As a result of the affiliation and other policy changes at MDCH, the flow of Medicaid funds from MDCH and various reporting responsibilities changed. However, the underlying cost principles and the shared-risk concept remain unchanged.

## **FUNDING METHODOLOGY**

For FY 2001-2002, AVCMHA contracted with the Michigan Department of Community Health (MDCH) under a Managed Specialty Supports and Services Contract (MSSSC). MDCH provided the funding under this contract to AVCMHA with both the state and federal share of Medicaid funds as capitated payments based on a Per Eligible Per Month (PEPM) methodology. An attachment to the contract includes the specific rates paid on the PEPM basis. MDCH also

distributed the non-Medicaid full-year State General Funds (GF) based on a separate formula attached to the contract. AVCMHA reported gross total expenditures of \$11.8 million in FY 2001-2002 to MDCH on a Financial Status Report (FSR) and a settlement with MDCH occurred.

For FY 2002-2003 and FY 2003-2004, AVCMHA contracted with MDCH under a Managed Mental Health Supports and Services Contract (MMHSSC). This provided State General Funds (GF) for providing mental health and developmental disability supports and services to individuals with serious mental illness, serious emotional disturbances or developmental disabilities as described in Section 208 of the Mental Health Code. AVCMHA reported GF expenditures of \$2.1 million in both FY 2002-2003 and FY 2003-2004 to MDCH on FSRs and settlements with MDCH occurred.

For FY 2002-2003 and FY 2003-2004, the PIHP contracted with MDCH for Medicaid funding under a Medicaid Managed Specialty Supports and Services Contract (MMSSSC). MDCH provided both the state and federal share of Medicaid funds as capitated payments based on a Per Eligible Per Month (PEPM) methodology to the PIHP. The PIHP then passed the Medicaid funds on to the affiliated community mental health organizations under a separate Comprehensive Provider Contract (CPC) based on their individual PEPM determinations. Under the CPC, AVCMHA is also subject to the terms and conditions of the MDCH/PIHP contract, Mental Health Code, and applicable state and federal laws. AVCMHA reported Medicaid expenditures of \$7.5 million in FY 2002-2003 and \$8.1 million in FY 2003-2004 and settlements between AVCMHA and the PIHP occurred. The PIHP then combined all affiliates' reported Medicaid expenditures and reported them on each year's FSR to MDCH, and then settlements between the PIHP and MDCH occurred after the fiscal year ends. AVCMHA also reported their Medicaid expenditures related to the CPC as an Earned Contract on their FSR with MDCH as no settlement occurred between AVCMHA and MDCH relating to capitated Medicaid funds.

AVCMHA also received special and/or designated funds, Children's Model Waiver fee for service funds, Adult Benefit Waiver capitated funds and MICHild capitated funds under special contractual arrangements with MDCH. Each agreement specifies the funding methodologies. Children's Model Waiver is a fee for service federal entitlement program that provides Medicaid

funded home and community based services to eligible children who are at risk for placement into an Intermediate Care Facility. The Adult Benefit Waiver is a non-Medicaid program designed to provide basic health care benefits for childless adults with an annual income at or below 35% of the Federal Poverty Level. MICHild is also a non-Medicaid program but it is designed to provide certain medical and mental health services for uninsured children of Michigan working families. MDCH also provided the funding for the Adult Benefit Waiver and the MICHild program by capitated payments based on a Per Enrolled Adult/Child Per Month methodology for covered services.

## **PURPOSE AND OBJECTIVES**

The purpose of this review was to determine whether AVCMHA had taken appropriate steps to correct the findings identified during the October 1, 1998 through September 30, 2001 audit. This follow-up review should be read in conjunction with the FY 1998-2001 audit for details regarding history, references and explanations of findings.

Another purpose of this review was to determine MDCH's share of costs for fiscal years 2001-2002, 2002-2003 and 2003-2004 after adjusting for any recurring findings from the prior audit or additional findings identified during this review.

### **Audit Objectives**

1. To assess AVCMHA's effectiveness in correcting the findings identified during the October 1, 1998 through September 30, 2001 audit.
2. To determine MDCH's share of costs for fiscal years 2001-2002, 2002-2003, and 2003-2004 after adjusting for any recurring findings from the prior audit or additional findings identified during this review.

## **SCOPE AND METHODOLOGY**

Our review primarily included an examination of AVCMHA's records and activities for the period October 1, 2001 through September 30, 2002. However, we also expanded our review to include subsequent periods pertaining to 1.) payments made to the AuSable Valley Community Mental Health Foundation, 2.) fixed asset purchases, and 3.) QHP revenue. We interviewed AVCMHA's executive, financial, and administrative staff. We reviewed AVCMHA's policies and procedures. We examined contracts for compliance with guidelines, rules, and regulations. We summarized and analyzed revenue and expenditure account balances to determine if they were properly reported on the financial status report ("FSR") in compliance with contractual reporting requirements and applicable accounting standards. We relied on the prior audit's review of internal controls relating to accounting for revenues and expenditures, procurement and other contracting procedures, reporting, claims management, and risk financing. We performed our audit procedures from January through March 2006.

## **CONCLUSIONS, FINDINGS AND RECOMMENDATIONS**

### **FINANCIAL REPORTING**

**Objective 1:** To assess AVCMHA's effectiveness in correcting the findings identified during the October 1, 1998 through September 30, 2001 audit.

**Conclusion:** AVCMHA was not effective in correcting the findings identified during the October 1, 1998 through September 30, 2001 audit. We found recurring exceptions related to the AuSable Valley Community Mental Health Foundation (finding 1), capital asset purchase reporting (finding 2), and contract revenues and expenditures reporting (finding 3). AVCMHA management was informed of the findings from the prior audit in October 2003, but corrective

action was not taken and some of the exceptions have continued through at least fiscal year 2003-2004.

## **Finding**

### **1. Unallowable Rent Paid to the AuSable Valley Community Mental Health Foundation**

AVCMHA continued to improperly report lease payments made to the AuSable Valley Community Mental Health Foundation (“Foundation”) as expenditures on the FY 2001/2002 and FY 2002/2003 FSRs in violation of contract provisions, the Mental Health Code, and OMB Circular A-87.

Our follow-up review determined that AVCMHA did not implement the recommendation from the prior audit to amend their FSRs and Contract Reconciliation and Cash Settlement Summaries to reduce reported expenditures for lease payments to the Foundation that exceeded the actual costs of ownership. AVCMHA continued to report expenditures to MDCH for less-than-arms-length lease payments to the Foundation that exceeded ownership costs.

The prior audit concluded that the lease payments from AVCMHA to the Foundation are under less-than-arms-length leases and sale and leaseback arrangements and, as such, AVCMHA was entitled to charge MDCH only for the amount that would be allowed had AVCMHA owned the property, or the underlying cost, according to OMB Circular A-87. The prior audit had also determined that the lease payments exceeding actual costs of ownership are not real or actual expenditures and are therefore ineligible for state financial support per the Mental Health Code, Section 330.1242 (Section 242).

Section 242 of the Mental Health Code and the OMB Circular A-87 allowable cost principles remain applicable to the fiscal years covered by this review. As such, AVCMHA was entitled to report lease payments to the Foundation as expenditures on their FSR, but the allowable amount was limited to underlying cost.

As of fiscal year end 1997-1998, AVCMHA had paid the Foundation a total of \$1,505,750 in lease payments and MDCH paid AVCMHA for these claimed costs. Based on the limited information available during the prior audit, we determined the Foundation's cost of the properties leased to AVCMHA to be \$1,489,725. We were not able to identify any additional costs of ownership as our access to the Foundation's records was still denied. Therefore, as of fiscal year end 1997-1998, MDCH had completely fulfilled their contractual obligation to AVCMHA by reimbursing them, in full, through the financial reporting process for the total identified actual costs plus finance charges for the seven leased buildings. AVCMHA is not entitled to reimbursement for costs exceeding actual ownership and should have stopped reporting these costs on their FSRs starting in FY 1998-1999. However, AVCMHA continued to report annual lease payments of \$257,317 to the Foundation on their FY 1998-1999 through FY 2002-2003 FSRs.

Audit adjustments removing claimed lease costs that exceeded the costs of ownership are shown as follows:

FY 2002-2003	Schedules D and E	\$257,317
FY 2001-2002	Schedules G and H	\$257,317

The AuSable Valley Community Mental Health Foundation dissolved on June 30, 2004 and its assets were transferred to AVCMHA. Included in the asset transfer were the seven buildings involved in the less-than-arms-length leases and sale and leaseback arrangements. At year end, AVCMHA reversed all recorded FY 2003-2004 lease payments and reported depreciation expense on the FSR. Since MDCH had fully reimbursed AVCMHA for the Foundation's cost of the buildings as of FY 1997-1998, any reported depreciation will be disallowed. (See Finding #2)

### **Recommendation**

We recommend AVCMHA implement policies and procedures to ensure lease expenditures for less-than-arms-length lease transactions and sale and lease back arrangements are

reported at underlying cost in compliance with contract provisions, the Mental Health Code, and applicable regulations.

## **Finding**

### **2. Improper Reporting of Capital Asset Purchases**

AVCMHA continued to improperly report capital asset purchases, and improperly reported depreciation expense on buildings transferred to AVCMHA at the dissolution of the Foundation on the FSRs in violation of OMB Circular A-87 and contract provisions.

Our follow-up review determined that AVCMHA did not implement the recommendations from the prior audit to adopt policies and procedures to ensure that expenditures related to capital asset purchases are reported in compliance with OMB Circular A-87 and the contract. AVCMHA reported the full purchase prices of capital assets as expenditures on the FY 2001-2002 FSR rather than a depreciation amount or use allowance. In FY 2002-2003 AVCMHA established a capitalization policy in conjunction with the implementation of GASB 34, but did not capitalize its Avatar software purchased in FY 2003-2004. AVCMHA also reported depreciation expense on the FY 2003-2004 FSR for buildings transferred to AVCMHA at the dissolution of the Foundation even though the cost of the buildings had already been fully paid for with state and federal funds, as determined by the prior audit.

The prior audit had determined that AVCMHA must comply with OMB Circular A-87 and accrual accounting regarding the accounting for capital assets. OMB Circular A-87 (revised 5/10/2004), Attachment B, Sections 11 and 15 (formerly Sections 15 and 19, respectively) requires the reporting of depreciation or a use allowance for capital asset costs that are \$5,000 or greater. The MSSSC, Section 8.9 and its Attachment 8.9.1, Section 1.3 – Financial Status Report requires that with the exception of P.A. 423 Grant Funds, all reported revenue and expenditure information be provided on an accrual basis of accounting. Therefore, the required method of reporting expenditures for capital assets over \$5,000 would be to

capitalize the cost and then report depreciation or use allowance over the assets' useful lives. These provisions remain applicable to the fiscal years covered by this review.

During FY 2001-2002 AVCMHA continued to expense the full purchase prices of capital assets. AVCMHA reported the full purchase prices of capital assets of \$113,718 rather than a depreciation amount or use allowance.

During FY 2002-2003 AVCMHA created a capitalization policy. AVCMHA applied a Net Asset adjustment to reverse the expensing of capital assets in the previous reporting years in order to claim depreciation in the future. Since AVCMHA's Net Asset adjustment and reported depreciation did not take into consideration the audit adjustments made in the prior audit, audit adjustments are needed to revise the Net Asset adjustment applied to FY 2002-2003 and to correct the reported depreciation for both FY 2002-2003 and FY 2003-2004 to agree with the prior audit. In other words, credit must be given for these assets based on the prior audit adjustments.

During FY 2003-2004 AVCMHA expensed the Avatar software for \$71,793. When AVCMHA joined the Northern Affiliation, it decided to change to the Avatar software to be compatible with the other CMHs in the Affiliation. A license and service agreement was executed between Creative Socio-Medics Corp (CSM), the Affiliation hub North Country Community Mental Health (NCCMH), and its affiliates including both AVCMHA and Northeast Michigan Community Mental Health Authority (NEMCMHA). Per this agreement, CSM granted both NCCMH and its affiliates new, nonexclusive licenses to use the Avatar program. It was also stated in the Amendment and Upgrade Agreement that if in the event of dissolution of the affiliation license, rights will revert back to each agency and at that time AVCMHA will sign a complete license and support agreement.

AVCMHA directly expensed the full purchase price of the Avatar software instead of capitalizing the asset. NCCMH considered AVCMHA's portion of the software costs as

belonging to AVCMHA and did not inventory, depreciate or charge it as an expenditure on their records. Therefore, since the Avatar software is a capital asset costing over \$5,000, an audit adjustment is made to capitalize the costs of the Avatar software and to record the appropriate amount of depreciation.

During FY 2003-2004 AVCMHA reported depreciation expense of \$21,955 for seven buildings transferred to AVCMHA at the dissolution of the Foundation. They were the same buildings that were involved in the less-than-arms-length leases and sale and lease back arrangements that were addressed in the prior audit report. The prior audit concluded that MDCH had fully reimbursed AVCMHA for the Foundation's cost of the buildings as of FY 1997-1998. Since the full cost of the buildings had already been paid by MDCH, AVCMHA is not entitled to depreciation expense on the buildings according to OMB Circular A-87. OMB Circular A-87 (Revised 5/10/04), Attachment B, Section 11, states, in pertinent part, "a. Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefiting from asset use...b. The computation of depreciation or use allowances shall be based on the acquisition cost of the assets involved...c. The computation of depreciation or use allowances will exclude :...(2) Any portion of the cost of buildings and equipment borne by or donated by the Federal Government irrespective of where title was originally vested or where it presently resides..." Audit adjustments will be made to remove the \$21,955 in unallowable depreciation expense.

Adjustments for FY 2003-2004 removing expenditures for the full purchase price of the Avatar software for \$71,793 as well as a reduction of reported depreciation allowance of \$3,702 to agree with the prior audit are shown on Schedules A and B. Also included on Schedules A and B are audit adjustments to remove the transferred building depreciation of \$21,955.

Adjustments for FY 2002-2003 increasing reported depreciation allowance of \$7,754 to agree with the prior audit are shown on Schedules D and E. Also included on Schedules D and E are audit adjustments to revise AVCMHA's Net Asset Adjustment.

Adjustments for FY 2001-2002 removing expenditures for the full purchase prices of capital assets for \$113,718 and substituting an appropriate depreciation allowance of \$182,364 are shown on Schedules G and H.

### **Recommendation**

We recommend AVCMHA adopt policies and procedures to ensure that expenses related to capital asset purchases are reported in compliance with OMB Circular A-87 and contract provisions.

### **Finding**

#### **3. Errors in Reported Earned Contracts Revenues and Expenditures**

AVCMHA continued to improperly report revenues and expenditures from earned contracts with Qualified Health Plans ("QHP") on the FSRs in FY 2003-2004, FY 2002-2003, and FY 2001-2002 in violation of the contract and FSR instructions.

Our follow-up review determined that AVCMHA did not implement the recommendation from the prior audit to implement policies and procedures to ensure that all costs related to earned contracts are properly reported in compliance with the contract and FSR instructions. AVCMHA continued to report revenue associated with providing 20 outpatient services as local revenue, and the expenditures related to providing the 20 outpatient services as matchable expenditures in violation of contract provisions and FSR instructions.

The prior audit determined that the 20 outpatient visits are not covered services of the MSSSC; they are covered services through the QHPs. Therefore, AVCMHA cannot report

the expenditures associated with providing the 20 outpatient visits services as matchable expenditures on the FSRs. The revenue from the QHPs and the related expenditures of providing those services must be reported as earned contracts. These provisions remain applicable to the fiscal years covered by this review.

The contract supports that only covered services of the contract may be reported as matchable expenditures on the FSR and that the revenue from the contracts with the QHPs and the related expenditures of providing these services must be reported as earned contracts. The Final Revised Request for the 1915(b) waiver reinforces that the 20 outpatient visits are not plan services. Also, both the Medical Services Administration Community Mental Health Services Bulletin 00-01 and AVCMHA Coordinating Agreements with the QHPs state that the 20 outpatient services are the responsibility of the QHP. Additionally, the AVCMHA Contract with Comprehensive Behavioral Care, Inc. states that AVCMHA is not entitled to any additional payment beyond that received by the QHP.

Audit adjustments to both the revenue and expenditure pages of the FSRs to reflect earned contract revenue from the QHPs are shown as follows:

FY 2003-2004	Schedules A and B	\$ 126,418
FY 2002-2003	Schedules D and E	\$ 81,298
FY 2001-2002	Schedules G and H	\$ 62,704

### **Recommendation**

We recommend AVCMHA implement policies and procedures to ensure that all costs related to earned contracts are properly reported in compliance with the contract and FSR instructions.

## MDCH's SHARE OF COSTS AND BALANCE DUE MDCH

**Objective 2:** To determine MDCH's share of costs for fiscal years 2003-2004, 2002-2003, and 2001-2002 after adjusting for any recurring findings from the prior audit or additional findings identified during this review.

**Conclusion:** MDCH's obligations for FYE 9/30/2004, FYE 9/30/2003, and FYE 9/30/2002 (excluding the MICHild capitated funds, MDCH Earned Contracts, Children's Model Waiver, and Adult Benefits Waiver funds) after audit adjustments are \$2,024,282, \$2,081,363, and \$9,354,644, respectively. For FYE 04, audit adjustments increased the amount of General Fund Carryforward by \$104,033. This increase in FYE 04 General Fund Carryforward will require AVCMHA to amend its subsequent year FSR and Cost Settlement. AVCMHA owes MDCH a balance of \$350,406 after considering advances and prior settlements as summarized below:

FYE 9/30/2004 MDCH Advances in Excess of MDCH Obligation (Schedule C)	\$103,037
FYE 9/30/2004 Prior Settlement (Schedule C)	(435)
FYE 9/30/2003 MDCH Advances in Excess of MDCH Obligation (Schedule F)	342,939
FYE 9/30/2003 Prior Settlement (Schedule F)	(330,525)
FYE 9/30/2002 MDCH Advances in Excess of MDCH Obligation (Schedule I)	497,230
FYE 9/30/2002 Prior Settlement (Schedule I)	<u>(261,840)</u>
Total Balance Due to MDCH	<u>\$350,406</u>

Note that the audit adjustments in FYE 9/30/2003 resulted in \$129,661 in additional Medicaid expenditures. AVCMHA should seek reimbursement from the PIHP for these additional costs.

## **Appendix**

Schedule A  
Financial Status Report  
October 1, 2003 through September 30, 2004

REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
A. Revenues Not Otherwise Reported	\$643,893	-	\$643,893
C. Earned Contracts (non DCH) Total	\$9,154,362	\$ 126,418	\$9,280,780
1 CMH to CMH	-	-	-
2 Other	346,665	126,418	473,083
3 Medicaid Managed Care - Affiliation	8,061,044	-	8,061,044
4 Substance Abuse Total	746,653	-	746,653
D. MI Child - Mental Health	\$11,034	-	\$11,034
D.1 Adult Benefit Waiver	\$377,412	-	\$377,412
E. Local Funding Total	\$2,124,626	\$ (126,418)	\$1,998,208
1 Special Fund Account (226(a))	156,526	(126,418)	30,108
2 Title XX Replacement	8,200	-	8,200
3 All Other	205,223	-	205,223
4 Foundation Dissolution	1,754,677		1,754,677
F. Reserve Balances - Planned for use	\$120,716	-	\$120,716
1 Carryforward -Section 226(2)(b)(c)	120,716	-	120,716
2 Internal Service Fund	-	-	-
G. DCH Earned Contracts Total	\$84,870	-	\$84,870
1 PASARR	21,218	-	21,218
2 Block Grant for CMH Services	55,972	-	55,972
3 Prevention	7,680	-	7,680
H. Gross Medicaid Total	\$80,033	-	\$80,033
1 Medicaid - Specialty Managed Care	-	-	-
2 Children's Waiver	80,033	-	80,033
I. Reimbursements Total	\$233,223	-	\$233,223
1 1st and 3rd Party	-	-	-
2 SSI	233,223	-	233,223
J. State General Funds Total	\$2,126,884	-	\$2,126,884
1 Formula Funding	2,084,892	-	2,084,892
2 Categorical Funding	11,192	-	11,192
3 State Services Base	30,800	-	30,800
4 DCH Risk Authorization	-	-	-
K. Grand Total Revenues	\$14,957,053	-	\$14,957,053
L. Estimated MDCH Obligation (H+J)	\$2,595,363	-	\$2,595,363

Schedule A  
Financial Status Report  
October 1, 2003 through September 30, 2004

EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
A. Gross Total Expenditures	\$13,046,024	(\$97,450)	\$12,948,574
B. Expenditures Not Otherwise Reported	\$646,552	-	\$646,552
D. Earned Contracts (Non MDCH) Total	\$9,212,841	\$ 126,418	\$9,339,259
1 CMH to CMH	-	-	-
2 Other Earned Contracts	346,665	126,418	473,083
3 Medicaid Managed Care - Affiliation	8,061,044	-	8,061,044
4 Substance Abuse	805,132	-	805,132
F. Local Total	\$206,340	-	\$206,340
1 Local Cost for State Provided Services	15,639	-	15,639
2 Other Not Used As Local Match	31,741	-	31,741
3 Affiliate Local Contribution to Medicaid Match	145,547	-	145,547
4 Prior Year Carryforward	13,413	-	13,413
G. Expenditures From Reserve Balances	\$120,716	-	\$120,716
1 Carryforward - Sec 226(2)(b)(c)	120,716	-	120,716
H. MDCH Earned Contracts Total	\$82,212	-	\$82,212
1 PASARR	21,218	-	21,218
2 Block Grant for CMH Services	55,972	-	55,972
3 Prevention	5,022	-	5,022
I. Matchable Services (A-(B through H))	\$2,777,363	(\$223,868)	\$2,553,495
J. Payments to MDCH for State Services	\$84,524	-	\$84,524

Schedule A  
Financial Status Report  
October 1, 2003 through September 30, 2004

EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
K. Specialty Managed Care Service Total	\$353,318	\$ (67,723)	\$285,595
1 100% MDCH Matchable Services	353,318	(67,723)	285,595
2 All SSI and Other Reimbursements	233,223	-	233,223
3 Net MDCH Share for 100 % Services (K1-K2)	120,095	(67,723)	52,372
4 90/10 Matchable Services	-	-	-
5 Medicaid Federal Share	-	-	-
6 Other Reimbursements	-	-	-
7 10% Local Match Funds	-	-	-
8 Net State Share for 90/10 Services (K4-K5-K6-K7)	-	-	-
9 Total MDCH Share, Spec. Mgd Care (K3+K5+K8)	120,095	(67,723)	52,372
L. GF Categorical and Formula Services Total	\$2,115,179	\$ (154,347)	\$1,960,832
1 100% MDCH Matchable Services	119,215	-	119,215
2 All SSI and Other Reimbursements	-	-	-
3 Net GF and Formula for 100% Services (L1-L2)	119,215	-	119,215
4 90/10 Matchable Services	1,995,964	(154,347)	1,841,617
5 Reimbursements	-	-	-
6 10% Local Match Funds	199,596	(15,435)	184,162
7 Net GF and Formula for 90/10 Services (L4-L5-L6)	1,796,368	(138,912)	1,657,456
8 Total MDCH GF and Formula (L3+L7)	1,915,583	(138,912)	1,776,671
L.a MICHild Mental Health	15,964	-	15,964
1 MICHild Mental Health - Capitation-Medicaid only	11,034	-	11,034
2 MICHild Mental Health - MDCH GF Operations Base	4,930	-	4,930
L.b Adult Benefits Waiver	128,345	(1,798)	126,547
1 ABW-Capitation-Medicaid and State Match	128,345	(1,798)	126,547
M. Children's Waiver - Total	80,033	-	80,033
1 Medicaid Federal Share	80,033	-	80,033
2 Other Reimbursements	-	-	-
3 Net State Share	-	-	-
4 Total MDCH Share Child Waiver	-	-	-
N. Unobligated Spending Authority Total	-	-	-
O. Total Local Match Funds (F+L6)	\$405,936	(\$15,435)	\$390,502
P. Total MDCH Share of Expenditures	\$2,344,544	(\$206,635)	\$2,136,111

Schedule B  
Explanation of Audit Adjustments  
October 1, 2003 through September 30, 2004

**Revenues**

**Earned Contracts (non-MDCH) \$126,418**

To reclassify QHP revenue as Earned Contracts. (finding 3)

**Local Funding Total (126,418)**

To reclassify QHP revenue as Earned Contracts. (finding 3)

**Expenditures**

**Gross Total Expenditures (97,450)**

(\$71,793) to decrease by the amount of disallowed Avatar Software. (finding 2)

(\$21,955) to remove unallowable building depreciation. (finding 2)

(\$3,702) to decrease by the amount of excess depreciation attributable to capitalized vehicles, computers, and equipment calculated by AVCMHA. (finding 2)

**Earned Contracts (Non-DCH) 126,418**

To reclassify QHP revenue as Earned Contracts. (finding 3)

**Matchable Services (223,868)**

(\$71,793) to decrease by the amount of disallowed Avatar Software. (finding 2)

(\$21,955) to remove unallowable building depreciation. (finding 2)

(\$3,702) to decrease by the amount of excess depreciation attributable to capitalized vehicles, computers, and equipment calculated by AVCMHA. (finding 2)

(\$126,418) to reclassify QHP revenue as Earned Contracts. (finding 3)

Schedule B – FY 2003-2004 (continued)

**Specialty Managed Care Service Total** (67,723)

(\$49,892) to decrease by the amount of disallowed Avatar Software. (finding 2)

(\$15,258) to remove unallowable building depreciation. (finding 2)

(\$2,573) to decrease by the amount of excess depreciation attributable to capitalized vehicles, computers, and equipment calculated by AVCMHA. (finding 2)

**GF Categorical and Formula Services Total** (154,347)

(\$20,576) to decrease by the amount of disallowed Avatar Software. (finding 2)

(\$6,292) to remove unallowable building depreciation. (finding 2)

(\$1,061) to decrease by the amount of excess depreciation attributable to capitalized vehicles, computers, and equipment calculated by AVCMHA. (finding 2)

(\$126,418) to reclassify QHP revenue as Earned Contracts. (finding 3)

**Adult Benefit Waiver Total** (1,798)

(\$1,325) to decrease by the amount of disallowed Avatar Software. (finding 2)

(\$405) to remove unallowable building depreciation. (finding 2)

(\$68) to decrease by the amount of excess depreciation attributable to capitalized vehicles, computers, and equipment calculated by AVCMHA. (finding 2)

Schedule C  
Contract Reconciliation and Cash Settlement Summary  
Fiscal Year Ended 9/30/04

I. State/General Fund Formula Funding	MDCH				
A. GF/Formula - State and Community Managed Programs	Authorization	Expense			
1 State Managed Services	\$30,800	\$84,524			
2 MDCH Risk Authorization - MDCH Approved for Use	-	-			
3 Community Managed Services	2,096,084	1,781,601			
4 Total State and Community Programs - GF/Formula Funding	\$2,126,884	\$1,866,125			
B. Categorical, Special And Designated Funds					
1 Respite Grant (Tobacco Tax)	11,192	11,192			
2 Total Categorical, Special and Designated Funds	\$11,192	\$11,192			
C. Subtotal - GF/Formula Community and State Managed Programs (A-B)	\$2,115,692	\$1,854,933			
	Specialized Managed Care	Formula Funds			
II. Shared Risk Arrangement					
A. Operating Budget - Exclude MOE and Categorical Funding	\$0	\$2,115,692			
B. MDCH Share - Exclude MOE and Categorical Funding	52,372	1,854,933			
C. Redirection of GF for excess Medicaid Expenditures	52,372	(52,372)			
D. Surplus (Deficit)	\$0	\$208,387			
E. Risk Band			\$105,785		
III. Cash Settlement	MDCH Share	Carryforward	General Fund Redirect	Total	Grand Total
A. MDCH Obligation					
1 Specialty Managed Care	\$52,372	\$0	(\$52,372)	\$0	
2 GF/Formula Funding (Net of Categorical)	1,854,933	105,785	52,372	\$2,013,090	
3 Categorical - MDCH Obligation	11,192	-		11,192	
4 Total - MDCH Obligation					2,024,282
B. Advances - Prepayments					
1 GF/Formula Funding - (Include MDCH Risk Authorization)				2,084,892	
2 Purchase of Services				30,800	
3 Categorical Funding				11,192	
4 DD Center				-	
5 Total Prepayments					2,126,884
C. Balance Due MDCH					102,602
D. Balance Due to MDCH for Unpaid State Service Costs					
State Facility Costs				84,524	
Actual Payments to MDCH				84,089	
Balance Due MDCH					435
E. Net Balance Due MDCH					\$103,037
Prior Settlement					(435)
Balance Due to MDCH					\$102,602
Additional ABW Savings Recognized					1,798

Schedule D  
Financial Status Report  
October 1, 2002 through September 30, 2003

REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
A. Revenues Not Otherwise Reported	\$570,609	-	\$570,609
B. Substance Abuse Total	\$759,404	-	\$759,404
C. Earned Contracts (non DCH) Total	\$7,810,781	81,298	\$7,892,079
1 CMH to CMH	-	-	-
2 Other	335,692	81,298	416,990
3 Medicaid Managed Care - Affiliation	7,475,089	-	7,475,089
D. MI Child - Mental Health	\$12,311	-	\$12,311
E. Local Funding Total	\$251,653	(81,298)	\$170,355
1 Special Fund Account (226(a))	110,842	(81,298)	29,544
2 Title XX Replacement	8,200	-	8,200
3 All Other	132,611	-	132,611
F. Reserve Balances - Planned for use	\$119,931	-	\$119,931
1 Carryforward -Section 226(2)(b)(c)	119,931	-	119,931
2 Internal Service Fund	-	-	-
G. DCH Earned Contracts Total	\$80,451	-	\$80,451
1 PASARR	24,151	-	24,151
2 Block Grant for CMH Services	50,000	-	50,000
3 Prevention	6,300	-	6,300
H. Gross Medicaid Total	\$71,323	-	\$71,323
1 Medicaid - Specialty Managed Care	-	-	-
2 Children's Waiver	71,323	-	71,323
I. Reimbursements Total	\$291,253	-	\$291,253
1 1st and 3rd Party	-	-	-
2 SSI	291,253	-	291,253
J. State General Funds Total	\$2,424,302	-	\$2,424,302
1 Formula Funding	2,345,861	-	2,345,861
2 Categorical Funding	9,976	-	9,976
3 State Services Base	43,207	-	43,207
4 DCH Risk Authorization	25,258	-	25,258
K. Grand Total Revenues	\$12,392,018	-	\$12,392,018
L. Estimated MDCH Obligation (H+J)	\$2,495,625	-	\$2,495,625

Schedule D  
Financial Status Report  
October 1, 2002 through September 30, 2003

EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
A. Gross Total Expenditures	\$12,103,852	\$189,390	\$12,293,242
B. Expenditures Not Otherwise Reported	\$549,684	-	\$549,684
C. Substance Abuse Total	\$808,098	(\$7,777)	\$800,321
D. Earned Contracts (Non MDCH) Total	\$7,810,781	\$210,959	\$8,021,740
1 CMH to CMH	-	-	-
2 Other Earned Contracts	335,692	81,298	416,990
3 Medicaid Managed Care - Affiliation	7,475,089	129,661	7,604,750
E. MI Child - Mental Health	\$12,311	-	\$12,311
F. Local Total	\$182,611	-	\$182,611
1 Local Cost for State Provided Services	5,446	-	5,446
2 Other Not Used As Local Match	13,769	-	13,769
3 Affiliate Local Contribution to Medicaid Match	150,070	-	150,070
4 Prior Year Carryforward	13,326	-	13,326
G. Expenditures From Reserve Balances	\$119,931	-	\$119,931
1 Carryforward - Sec 226(2)(b)(c)	119,931	-	119,931
H. MDCH Earned Contracts Total	\$77,678	-	\$77,678
1 PASARR	24,151	-	24,151
2 Block Grant for CMH Services	50,000	-	50,000
3 Prevention	3,527	-	3,527
I. Matchable Services (A-(B through H))	\$2,542,758	(\$13,792)	\$2,528,966
J. Payments to MDCH for State Services	\$34,672	-	\$34,672

Schedule D  
Financial Status Report  
October 1, 2002 through September 30, 2003

EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
K. Specialty Managed Care Service Total	\$291,253	-	\$291,253
1 100% MDCH Matchable Services	291,253	-	291,253
2 All SSI and Other Reimbursements	291,253	-	291,253
3 Net MDCH Share for 100 % Services (K1-K2)	-	-	-
4 90/10 Matchable Services	-	-	-
5 Medicaid Federal Share	-	-	-
6 Other Reimbursements	-	-	-
7 10% Local Match Funds	-	-	-
8 Net State Share for 90/10 Services (K4-K5-K6-K7)	-	-	-
9 Total MDCH Share, Spec. Mgd Care (K3+K5+K8)	-	-	-
L. GF Categorical and Formula Services Total	\$2,121,813	(13,792)	\$2,108,021
1 100% MDCH Matchable Services	287,567	-	287,567
2 All SSI and Other Reimbursements	-	-	-
3 Net GF and Formula for 100% Services (L1-L2)	287,567	-	287,567
4 90/10 Matchable Services	1,834,246	(13,792)	1,820,454
5 Reimbursements	-	-	-
6 10% Local Match Funds	183,425	(1,379)	182,045
7 Net GF and Formula for 90/10 Services (L4-L5-L6)	1,650,821	(12,413)	1,638,408
8 Total MDCH GF and Formula (L3+L7)	1,938,388	(12,413)	1,925,975
M. Children's Waiver - Total	95,020	-	95,020
N. Unobligated Spending Authority Total	-	-	-
O. Total Local Match Funds (F+K7+L6)	\$366,036	(\$1,379)	\$364,656
P. Total MDCH Share of Expenditures (J+K9+L8+M)	\$2,068,080	(\$12,413)	\$2,055,667

Schedule E  
Explanation of Audit Adjustments  
October 1, 2002 through September 30, 2003

**Revenues**

**Earned Contracts (non-MDCH) \$81,298**

To reclassify QHP revenue as Earned Contracts. (finding 3)

**Local Funding Total (81,298)**

To reclassify QHP revenue as Earned Contracts. (finding 3)

**Expenditures**

**Gross Total Expenditures 189,390**

(\$257,317) to remove expenditures related to payments to AVCMHA Foundation.  
(finding 1)

\$7,754 to increase by the amount of depreciation attributable to capitalized  
vehicles, computers, and equipment. (finding 2)

\$438,953 to revise the Net Asset adjustment. (finding 2)

**Substance Abuse Other (7,777)**

To remove expenditures related to payments to AVCMHA Foundation. (finding 1)

**Earned Contracts (Non-DCH) 210,959**

\$81,298 to reclassify QHP revenue as Earned Contracts. (finding 3)

(\$208,728) to remove expenditures related to payments to AVCMHA Foundation.  
(finding 1)

\$5,776 to increase by the amount of depreciation attributable to capitalized  
vehicles, computers, and equipment. (finding 2)

Schedule E – FY 2002-2003 (continued)

\$332,613 to revise the Net Asset adjustment. (finding 2)

**Matchable Services**

**(13,792)**

(\$40,812) to remove expenditures related to payments to AVCMHA Foundation.  
(finding 1)

\$1,978 to increase by the amount of depreciation attributable to capitalized  
vehicles, computers, and equipment. (finding 2)

\$106,340 to revise the Net Asset adjustment . (finding 2)

(\$81,298) to reclassify QHP revenue as Earned Contracts. (finding 3)

**GF Categorical and Formula Services Total**

**(13,792)**

(\$40,812) to remove expenditures related to payments to AVCMHA Foundation.  
(finding 1)

\$1,978 to increase by the amount of depreciation attributable to capitalized  
vehicles, computers, and equipment. (finding 2)

\$106,340 to revise the Net Asset adjustment. (finding 2)

(\$81,298) to reclassify QHP revenue as Earned Contracts. (finding 3)

Schedule F  
Contract Reconciliation and Cash Settlement Summary  
Fiscal Year Ended 9/30/03

I. State/General Fund Formula Funding				
A. GF/Formula - State and Community Managed Programs	Authorization	MDCH Expense		
1 State Managed Services	\$43,207	\$34,672		
2 MDCH Risk Authorization - MDCH Approved for Use	-	-		
3 Community Managed Services	2,381,095	1,925,975		
4 Total State and Community Programs - GF/Formula Funding	\$2,424,302	\$1,960,647		
B. Categorical, Special And Designated Funds				
1 Respite Grant (Tobacco Tax)	9,976	9,976		
2 Total Categorical, Special and Designated Funds	\$9,976	\$9,976		
C. Subtotal - GF/Formula Community and State Managed Programs (A-B)	\$2,414,326	\$1,950,671		
		Formula Funds		
II. Shared Risk Arrangement				
A. Operating Budget - Exclude MOE and Categorical Funding		\$2,414,326		
B. MDCH Share - Exclude MOE and Categorical Funding		1,950,671		
C. Surplus (Deficit)		\$ 463,655		
D. Risk Band - 5% of Operating Budget (A x 5%)		\$120,716		
III. Cash Settlement	MDCH Share	Savings or Carryforward	Total	Grand Total
A. MDCH Obligation				
1 GF/Formula Funding (Net of Categorical)	1,950,671	120,716	2,071,387	
2 Categorical - MDCH Obligation	9,976	-	9,976	
3 Total - MDCH Obligation				2,081,363
B. Advances - Prepayments				
1 GF/Formula Funding - (Include MDCH Risk Authorization)			2,345,861	
2 Purchase of Services			43,207	
3 Categorical Funding			9,976	
4 DD Center Adjustment			25,258	
5 Total Prepayments				2,424,302
C. Balance Due MDCH				342,939
D. Balance Due to MDCH for Unpaid State Service Costs				
State Facility Costs			34,672	
Actual Payments to MDCH			34,672	
Balance Due MDCH				-
E. Net Balance Due MDCH				\$342,939
Prior Settlement				(330,525)
Balance Due to MDCH				\$12,414

Schedule G  
Financial Status Report  
October 1, 2001 through September 30, 2002

REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
A. Revenues Not Otherwise Reported	\$481,143	-	\$481,143
B. Substance Abuse Total	\$794,170	-	\$794,170
C. Earned Contracts (non DCH) Total	\$283,610	62,704	\$346,314
1 CMH to CMH	-	-	-
2 Other	283,610	62,704	346,314
D. MI Child - Mental Health	\$10,540	-	\$10,540
E. Local Funding Total	\$294,858	(62,704)	\$232,154
1 Special Fund Account (226(a))	107,248	(62,704)	44,544
2 Title XX Replacement	8,200	-	8,200
3 All Other	179,410	-	179,410
F. Reserve Balances - Planned for use	\$308,040	-	\$308,040
1 Carryforward -Section 226(2)(b)(c)	308,040	-	308,040
2 Internal Service Fund	-	-	-
G. DCH Earned Contracts Total	\$81,525	-	\$81,525
1 PASARR	30,525	-	30,525
2 Block Grant for CMH Services	50,000	-	50,000
3 Prevention	1,000	-	1,000
H. Gross Medicaid Total	\$7,508,294	-	\$7,508,294
1 Medicaid - Specialty Managed Care	7,508,294	-	7,508,294
2 Children's Waiver	-	-	-
I. Reimbursements Total	\$267,356	-	\$267,356
1 1st and 3rd Party	-	-	-
2 SSI	267,356	-	267,356
J. State General Funds Total	\$2,433,028	-	\$2,433,028
1 Formula Funding	2,173,916	-	2,173,916
2 Categorical Funding	34,400	-	34,400
3 State Services Base	224,712	-	224,712
4 DCH Risk Authorization	-	-	-
K. Grand Total Revenues	\$12,462,564	-	\$12,462,564
L. Estimated MDCH Obligation (H+J)	\$9,941,322	-	\$9,941,322

Schedule G  
Financial Status Report  
October 1, 2001 through September 30, 2002

EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
A. Gross Total Expenditures	\$11,754,986	(\$188,670)	\$11,566,316
B. Expenditures Not Otherwise Reported	\$481,143	-	\$481,143
C. Substance Abuse Total	\$846,130	(\$7,935)	\$838,195
D. Earned Contracts (Non MDCH) Total	\$283,610	\$62,704	\$346,314
1 CMH to CMH	-	-	-
2 Other Earned Contracts	283,610	62,704	346,314
E. MI Child - Mental Health	\$10,540	-	\$10,540
F. Local Total	\$176,429	-	\$176,429
1 Local Cost for State Provided Services	22,916	-	22,916
2 Other Not Used As Local Match	153,513		153,513
G. Expenditures From Reserve Balances	\$308,040	-	\$308,040
1 Carryforward - Sec 226(2)(b)(c)	308,040	-	308,040
H. MDCH Earned Contracts Total	\$81,525	-	\$81,525
1 PASARR	30,525	-	30,525
2 Block Grant for CMH Services	50,000	-	50,000
3 Prevention	1,000	-	1,000
I. Matchable Services (A-(B through H))	\$9,567,569	(\$243,439)	\$9,324,130
J. Payments to MDCH for State Services	\$42,112	-	\$42,112

Schedule G  
Financial Status Report  
October 1, 2001 through September 30, 2002

EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
K. Specialty Managed Care Service Total	\$7,836,882	(\$162,945)	\$7,673,937
1 100% MDCH Matchable Services	4,341,422	(86,418)	4,255,004
2 All SSI and Other Reimbursements	267,356	-	267,356
3 Net MDCH Share for 100 % Services (K1-K2)	4,074,066	(86,418)	3,987,648
4 90/10 Matchable Services	3,495,460	(76,527)	3,418,933
5 Medicaid Federal Share	1,970,041	(43,130)	1,926,911
6 Other Reimbursements	-	-	-
7 10% Local Match Funds	-	-	-
8 Net State Share for 90/10 Services (K4-K5-K6-K7)	1,525,419	(33,397)	1,492,022
9 Total MDCH Share, Spec. Mgd Care (K3+K5+K8)	7,569,526	(162,945)	7,406,581
L. GF Categorical and Formula Services Total	\$1,688,575	(\$80,494)	\$1,608,081
1 100% MDCH Matchable Services	129,605	-	129,605
2 All SSI and Other Reimbursements	-	-	-
3 Net GF and Formula for 100% Services (L1-L2)	129,605	-	129,605
4 90/10 Matchable Services	1,558,970	(80,494)	1,478,476
5 Reimbursements	-	-	-
6 10% Local Match Funds	155,897	(8,049)	147,848
7 Net GF and Formula for 90/10 Services (L4-L5-L6)	1,403,073	(72,445)	1,330,628
8 Total MDCH GF and Formula (L3+L7)	1,532,678	(72,445)	1,460,233
M. Children's Waiver - Total	-	-	-
N. Unobligated Spending Authority Total	-	-	-
O. Total Local Match Funds (F+K7+L6)	\$332,326	(\$8,049)	\$324,277
P. Total MDCH Share of Expenditures (J+K9+L8+M)	\$9,144,316	(\$235,390)	\$8,908,926

Schedule H  
Explanation of Audit Adjustments  
October 1, 2001 through September 30, 2002

**Revenues**

**Earned Contracts (non-MDCH) \$62,704**

To reclassify QHP revenue as Earned Contracts. (finding 3)

**Local Funding Total (62,704)**

To reclassify QHP revenue as Earned Contracts. (finding 3)

**Expenditures**

**Gross Total Expenditures (188,670)**

(\$257,317) to remove expenditures related to payments to AVCMHA Foundation.  
(finding 1)

(\$113,718) to decrease by the amount of disallowed vehicles, computers,  
and equipment. (finding 2)

\$182,365 to increase by the amount of depreciation attributable to capitalized  
vehicles, computers, and equipment. (finding 2)

**Substance Abuse Other (7,935)**

To remove expenditures related to payments to AVCMHA Foundation. (finding 1)

**Earned Contracts (non-MDCH) 62,704**

To reclassify QHP revenue as Earned Contracts. (finding 3)

**Matchable Services (243,439)**

(\$249,382) to remove expenditures related to payments to AVCMHA  
Foundation. (finding 1)

Schedule H – FY 2001-2002 (continued)

(\$113,718) to decrease by the amount of disallowed vehicles, computers, and equipment. (finding 2)

\$182,365 to increase by the amount of depreciation attributable to capitalized vehicles, computers, and equipment. (finding 2)

(\$62,704) to reclassify QHP revenue as Earned Contracts. (finding 3)

**Specialty Managed Care Service Total (162,945)**

(\$207,618) to remove expenditures related to payments to AVCMHA Foundation. (finding 1)

(\$71,145) to decrease by the amount of disallowed vehicles, computers, and equipment. (finding 2)

\$115,818 to increase by the amount of depreciation attributable to capitalized vehicles, computers, and equipment. (finding 2)

**GF Categorical and Formula Services Total (80,494)**

(\$41,764) to remove expenditures related to payments to AVCMHA Foundation. (finding 1)

(\$42,573) to decrease by the amount of disallowed vehicles, computers, and equipment. (finding 2)

\$66,547 to increase by the amount of depreciation attributable to capitalized vehicles, computers, and equipment. (finding 2)

(\$62,704) to reclassify QHP revenue as Earned Contracts. (finding 3)

Schedule I  
Contract Reconciliation and Cash Settlement Summary  
Fiscal Year Ended 9/30/02

	Total Authorization	Medicaid Expenditures	General Fund Expenditures	Savings or Carryforward	Total MDCH Share
I. Maintenance of Effort (MOE)					
A. Maintenance of Effort - Expenditures					
1 OBRA Active Treatment	\$89,905	-	\$53,081	\$4,495	\$57,576
2 OBRA Residential	867,658	867,658	-	-	867,658
3 Residential Direct Care Wage Increase #2 - 100% MOE	124,896	124,896	-	-	124,896
4 Total	\$1,082,459	\$992,554	\$53,081	\$4,495	\$1,050,130
5 Maintenance of Effort - Lapse					\$32,329
	MOE Authorization	Medicaid Percentage	General Fund Percentage	Medicaid	General Fund
B. Reallocation of MOE Authorization					
1 OBRA Active Treatment	\$89,905	0.00%	100.00%	-	\$89,905
2 OBRA Residential	867,658	100.00%	0.00%	867,658	-
3 Direct Care Wage Increase #2 - 100% MOE	124,896	100.00%	0.00%	124,896	-
4 Total	\$1,082,459			\$992,554	\$89,905
II. Specialized Managed Care (Includes both state and federal share)	MDCH Revenue	MDCH Expense			
A. Total - Specialized Managed Care	\$7,508,294	\$7,406,581			
B. Maintenance of Effort - Summary	992,554	992,554			
C. Net Specialized Managed Care (A-B)	\$6,515,740	\$6,414,027			
III. State/General Fund Formula Funding		MDCH			
A. GF/Formula - State and Community Managed Programs	Authorization	Expense			
1 State Managed Services	\$224,712	\$42,112			
2 MDCH Risk Authorization - MDCH Approved for Use	-	-			
3 Community Managed Services	2,208,316	1,460,233			
4 Total State and Community Programs - GF/Formula Funding	\$2,433,028	\$1,502,345			
B. Maintenance of Effort - Summary	89,905	53,081			
C. Categorical, Special And Designated Funds					
1 Respite Grant (Tobacco Tax)	34,400	34,400			
2 Other	-	-			
3 Total Categorical, Special and Designated Funds	\$34,400	\$34,400			
D. Subtotal - GF/Formula Community and State Managed Programs (A-B-C)	\$2,308,723	\$1,414,864			

Schedule I  
Contract Reconciliation and Cash Settlement Summary  
Fiscal Year Ended 9/30/02

	Specialized Managed Care	Formula Funds			
IV. Shared Risk Arrangement					
A. Operating Budget - Exclude MOE and Categorical Funding	\$6,515,740	\$2,308,723			
B. MDCH Share - Exclude MOE and Categorical Funding	6,414,027	1,414,864			
C. Redirection of GF	224,074	(224,074)			
D. Surplus (Deficit)	<u>\$325,787</u>	<u>\$669,785</u>			
E. Risk Band - 5% of Operating Budget (A x 5%)	\$325,787	\$115,436			
V. Cash Settlement					
A. MDCH Obligation	MDCH Share	Savings or Carryforward	Redirected General Fund	Total	Grand Total
1 Specialty Managed Care (Net of MOE)	\$6,414,027	\$101,713		\$6,515,740	
2 GF/Formula Funding (Net of Categorical and MOE)	1,414,864	115,436	224,074	1,754,374	
3 MOE Specialty Managed Care MDCH Obligation	992,554	-		992,554	
4 MOE GF/Formula Funding MDCH Obligation	53,081	4,495		57,576	
5 Categorical - MDCH Obligation	34,400	-		34,400	
6 Total - MDCH Obligation					9,354,644
B. Advances - Prepayments					
1 Specialized Managed Care				7,508,294	
2 GF/Formula Funding - (Include MDCH Risk Authorization)				2,046,899	
3 Purchase of Services				224,712	
4 Categorical Funding				34,400	
5 Total Prepayments				<u>9,814,305</u>	9,814,305
C. Balance Due MDCH					459,661
D. Balance Due to MDCH for Unpaid State Service Costs					
State Facility Costs				42,112	
Actual Payments to MDCH				4,543	
Balance Due MDCH				<u>37,569</u>	37,569
E. Net Balance Due MDCH					\$497,230
Prior Settlement					(261,840)
Balance Due to MDCH					<u>\$235,390</u>

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 5

**Finding:** Unallowable Rent Paid to the AVCMH Foundation

AVCMHA continued to improperly report lease payments made to the AuSable Valley Community Mental Health Foundation (“Foundation”) as expenditures on the FY 2001/2002 and FY 2002/2003 FSRs in violation of contract provisions, the Mental Health Code, and OMB Circular A-87; and did not amend FSRs and Contract Reconciliation and Cash Settlement Summaries for applicable fiscal year ends as previously recommended.

**Recommendation:** Implement policies and procedures to ensure lease expenditures for less-than-arms-length lease transactions and sale and lease back arrangements are reported at underlying cost in compliance with contract provisions, the Mental Health Code, and applicable regulations.

**CMHSP Comments:** AVCMHA stated that they do not agree with the finding and related adjustments. AVCMHA continues to deny that its relationship with the Foundation, which was dissolved on June 30, 2004, in any way violated the contract provisions or the Mental Health Code. AVCMHA also notes that the rent payments made to the Foundation were at fair market rental value.

AVCMHA stated that with the implementation of GASB 39 all properties held by the Foundation were required to be included in AVCMHA's accounting. As such, AVCMHA recorded all buildings transferred over from the Foundation dissolution onto AVCMHA's depreciation schedule as if the buildings had always been on AVCMHA's depreciation schedule. AVCMHA also stated that they reversed a lease payment made in FYE 2004 in order to be compliant with GASB 39.

AVCMHA claims to have found no evidence to support the position that the rent payments to the Foundation were unallowable. AVCMHA requested that the finding be removed from the audit.

**Corrective Action:** AVCMHA stated that corrective actions have occurred. AVCMHA notes that subsequent changes in the contract as well as changes in applicable accounting standards made it necessary to dissolve its relationship with the Foundation, which involved the transfer of assets to AVCMHA as well as the reversal of the FY 2004 rent payment made. AVCMHA states that no further corrective action is necessary.

#### **Anticipated**

**Completion Date:** As stated by AVCMHA, necessary corrective action has already been taken.

**MDCH Response:** The MDCH Office of Audit's position remains unchanged. AVCMHA reported lease payments made to the Foundation in FY 2001-2002 and FY 2002-2003 as expenditures to MDCH, but the reported expenditures were not allowable under contract provisions, the Mental Health Code, or OMB Circular A-87 as explained in detail in the current and prior audit report. While the rental payments may have been at fair market rental value, this point is irrelevant given the other limitations established in OMB Circular A-87.

Rental costs under less-than-arms-length leases and sale and lease back arrangements are allowable only up to the amount had AVCMHA owned the property, or underlying cost. Since it was determined that MDCH had reimbursed AVCMHA in full through the financial reporting process for the total identified actual costs of ownership for the seven leased buildings as of fiscal year end 1997-1998, no further rental costs are allowable. Additionally, since MDCH has fully reimbursed AVCMHA for the identified costs of ownership, depreciation charges for the transferred assets upon the Foundation dissolution are unallowable.

This issue originated in the FY 1999-2001 audit of AVCMHA, which is currently in the appeal process. The audit finding was upheld at the MDCH Preliminary Conference conducted in Lansing and received subsequent concurrence from the MDCH Appeals Section Director. AVCMHA has requested an MDCH Bureau Conference to appeal this decision, which is to be held at a later date.

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 7

**Finding:** Improper Reporting of Capital Asset Purchases

AVCMHA continued to improperly report capital asset purchases, and improperly reported depreciation expense on buildings transferred to AVCMHA at the dissolution of the Foundation on the FSRs in violation of OMB Circular A-87 and contract provisions.

**Recommendation:** Adopt policies and procedures to ensure that expenses related to capital asset purchases are reported in compliance with OMB Circular A-87 and contract provisions.

**CMHSP Comments:** AVCMHA stated that they do not agree with the finding and related adjustments. AVCMHA continues to deny that any reporting of capital asset purchases during FY 2002 through FY 2004 were in violation of contract provisions. AVCMHA also contended that the contract did not require compliance with OMB Circular A-87 for the audit period.

AVCMHA noted that they created a capitalization policy effective October 1, 2002 which was used to capitalize all appropriate asset purchases. This policy was created in conjunction with the implementation of GASB 34, which changed the method of recording assets for governmental accounting from direct expensing to depreciation.

AVCMHA noted that it believes that statements received from senior MDCH representatives prior to this time period regarding the application of OMB Circular A-87 were authoritative. These statements indicate that it was not necessary to apply OMB Circular A-87, which requires the depreciation of capital assets.

AVCMHA also noted that this issue has been litigated in Circuit Court on two separate occasions, both in which the CMH had prevailed in its appeal. It was agreed by AVCMHA that Circuit Court findings do not establish precedent, but asks that these findings be taken into consideration.

AVCMHA separately addressed the purchase of the Avatar software. AVCMHA believes that since NCCMH holds the license then it is not considered an asset for AVCMHA and that only the dissolution of the Affiliation will change the reporting of the software. Therefore, AVCMHA claimed that the costs they paid to NCCMH for the software should be expensed, not depreciated.

AVCMHA commented that in regard to the “Net Asset Adjustment” it believes the necessary adjustments to reflect asset reporting changes for prior years have already been completed.

AVCMHA also commented that it believes it properly reported depreciation expense for the seven buildings transferred from the Foundation subsequent to dissolution.

**Corrective Action:** AVCMHA stated that corrective actions have occurred. AVCMHA changed its reporting of capital assets, effective October 1, 2002, to capitalize all assets that are \$5,000 or greater in compliance with the implementation of GASB 39.

**Anticipated**

**Completion Date:** As stated by AVCMHA, necessary corrective action has already been taken.

**MDCH Response:** The MDCH Office of Audit's position remains unchanged. AVCMHA's contracts with MDCH clearly require compliance with OMB Circular A-87 and accrual accounting regarding the accounting for capital asset purchases. While GASB 34 changed the method of recording capital assets, this related to financial statement presentation, not financial status reporting. By contract, the requirement to comply with OMB Circular A-87 and accrual accounting with respect to financial status reporting has been in place since the implementation of the managed care program in FY 1998-1999. Furthermore, any statements of MDCH representatives dismissing the applicability of OMB Circular A-87 do not represent contract amendments or waivers of contract requirements.

MDCH's Office of Audit recognizes that two other CMH's have prevailed in Circuit Court on this issue. However, the findings of the Circuit Court do not establish precedent and further appeals were not pursued. MDCH's Office of Audit is obligated to cite issues interpreted as contractual violations.

AVCMHA stated that since the Avatar software is licensed to NCCMH, then the asset belongs to NCCMH and as such any related costs should be expensed. The License and Service Agreement dated September 21, 2004 names NCCMH as Licensee, but it also refers to NEMCMHA and AVCMHA as Affiliate Licensees, with all parties referred to as Licensees. As such, the License and Service Agreement notes that the license is granted to the Licensees. Also, AVCMHA was included as one of the parties to have executed the agreement on the signature page. Finally, the

agreement states that Creative Socio-Medics Corp will grant to both the Licensee and the Affiliated Licensees new, nonexclusive licenses to use the licensed programs. Therefore, the software is licensed to AVCMHA as well as to NCCMH and NEMCMHA.

MDCH's adjustment to AVCMHA's Net Asset Adjustment simply recognized that prior adjustments had been made through the prior audit so AVCMHA's Net Asset Adjustment needed to be adjusted so proper credit could be given.

AVCMHA believes that reporting the seven buildings transferred from the dissolution of the Foundation at net book value on its depreciation schedule was proper. However, since the identified costs of the buildings have been paid in full with Medicaid and General Funds, reporting them on a depreciation schedule for reimbursement through capitation would be charging these programs a second time. Therefore, any depreciation costs associated with these buildings should not be included in matchable expenditures.

The issue regarding the capitalization of assets prior to the implementation of GASB 34 originated in the FY 1999-2001 audit of AVCMHA, which is currently in the appeal process. The audit finding was upheld at the MDCH Preliminary Conference conducted in Lansing and received subsequent concurrence from the MDCH Appeals Section Director. AVCMHA has requested an MDCH Bureau Conference to appeal this decision, which is to be held at a later date.

## Corrective Action Plan

**Finding Number:** 3

**Page Reference:** 10

**Finding:** Errors in Reported Earned Contracts Revenues and Expenditures

AVCMHA continued to improperly report revenues and expenditures from earned contracts with Qualified Health Plans (“QHP”) on the FSRs in FY 2003-2004, FY 2002-2003, and FY 2001-2002 in violation of the contract and FSR instructions.

**Recommendation:** Implement policies and procedures to ensure that all costs related to earned contracts are properly reported in compliance with the contract and FSR instructions.

**CMHSP Comments:** AVCMHA stated that they do not agree with this finding and related adjustments. AVCMHA continues to deny that its treatment of revenues and expenditures from QHP earned contracts is in violation of the contract. AVCMHA contends that the reporting of QHP related activity is fully compliant with the contract through interpretations it has received from officials of MDCH. AVCMHA also mentions the Plan Requirements for Specialty Community Mental Health Services and Supports that states Medicaid funds may lose their identity as public funds and become the equivalent of private insurance dollars. AVCMHA states that they relied on these instructions and believe that no evidence was presented to the contrary.

AVCMHA referenced a contract language change effective October 1, 2006 that specifically prohibits the use of QHP revenues as Public Act 423 monies, and stated that the change “reflects the fact that the understanding of the parties until that date had been that QHP revenues were appropriately used as local funds, under the terms of Section 226A of the Mental Health Code.”

**Corrective Action:** None according to AVCMHA. AVCMHA no longer uses QHP revenues as local funds effective October 1, 2006

**Anticipated**

**Completion Date:** October 1, 2006

**MDCH Response:** The MDCH Office of Audit’s position remains unchanged. Since the 20 outpatient visit services are not covered services of the contract between AVCMHA and MDCH, but instead are covered services of the QHP, the expenditures associated with providing the services cannot be reported as matchable expenditures. Both the revenue from the QHPs and the related expenditures of providing those services must be reported as earned contracts. Furthermore, the change in contract language that become effective October 1, 2006 was nothing more than a clarification of a prohibition that was in place via other contract requirements.

This issue originated in the FY 1999-2001 audit of AVCMHA, which is currently in the appeal process. The audit finding was upheld at the MDCH Preliminary Conference conducted in Lansing and received subsequent concurrence from the MDCH Appeals Section Director. AVCMHA has requested an MDCH Bureau Conference to appeal this decision, which is to be held at a later date.